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November 3, 2003

HAND DELIVERED

Thomas M. Dorman
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

RE: ***P.S.C. Case No. 2003-00228***

Dear Mr. Dorman:

Enclosed please find and accept for filing the original and nine copies of the testimony of Errol K. Wagner and Delinda K. Borden. A copy of the testimony also is being served today on counsel to the parties to this proceeding.

Sincerely yours,

STITES & HARBISON PLLC

Mark R. Overstreet

cc: Robert C. Moore (with enclosures)
Albert A. Burchett (with enclosures)
J. Scott Preston (with enclosures)
Rebecca S. Gohmann (with enclosures)

KE057:KE169:10091:1:FRANKFORT

COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF

MATRIX ENERGY, LLC FOR DETERMINATION	)	CASE NO.
OF RETAIL ELECTRIC SUPPLIER	)	2003-00228

DIRECT TESTIMONY OF DELINDA K BORDEN AND ERROL K WAGNER ON BEHALF OF KENTUCKY POWER COMPANY D/B/A AMERICAN ELECTRIC POWER

November 3, 2003

BORDEN

COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF

MATRIX ENERGY, LLC FOR DETERMINATION	**)**	**CASE NO.**
OF RETAIL ELECTRIC SUPPLIER	**)**	**2003-00228**

DIRECT TESTIMONY

OF

DELINDA K. BORDEN

November 3, 2003

DIRECT TESTIMONY OF
DELINDA K BORDEN, ON BEHALF OF
KENTUCKY POWER COMPANY,
d/b/a AMERICAN ELECTRIC POWER,
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO 2003-00228

Introduction

Q: Please state your name and position.

A: My name is Delinda K. Borden. My position is Customer Services Engineer III, Kentucky Power Company d/b/a American Electric Power ("Kentucky Power, AEP or Company"). My business address is 416 Teays Branch Road, Paintsville, Kentucky 41240.

Background

Q: Please describe your educational and employment background and current responsibilities as Customer Services Engineer III.

A: I received a Bachelor of Science degree with a major in Electrical Engineering from Michigan Technological University, Houghton, Michigan in February 1979. In December 1979, I joined Kentucky Power Company, Pikeville Division as an Electrical Engineer in the engineering department. Shortly thereafter I transferred to Customer Services as an Energy Services Engineer. I have also worked as the Paintsville Area supervisor, Economic Development Consultant, Kentucky Region Business Services Supervisor and I have held my current position of Customer Services Engineer since 1997. As a Customer Services Engineer, I work directly with customers in Kentucky and West Virginia who

have an average monthly demand in excess of 1 MW and/or are served at a transmission voltage. It is my responsibility to be the Company interface with the customer and to coordinate all activities for these customers. I report to the Customer Services Manager for the Charleston Region, Mr. Alan A. Bragg, located in Charleston, West Virginia.

Q. Are you involved in requests to establish new interconnections with AEP?

A: No, requests for new interconnections are evaluated by the AEP Transmission Planning group located in Gahanna, Ohio.

General Description of Mining Area

Q: Please describe generally for the Commission the area where the Matrix Energy, LLC ("Matrix") mine is located.

A: The Matrix Mine is located in southern Johnson and Martin Counties and northern Floyd County. The mine is located approximately 12 miles northeast of Prestonsburg, 14 miles southeast of Paintsville and 11 miles southwest of Inez. You can access the mine site from Rt 3, by taking the airport road exit, and traveling to the top of the hill past the customer's guard shack.

Q: Where does the mine site lie with respect to AEP's service territory?

A. The boundary line between AEP's service territory and Big Sandy Rural Electric Cooperative Corporation's ("Big Sandy RECC or Big Sandy") service territory, in the Matrix mine area, follows the Johnson-Martin County Line, until it reaches the point in the Lancer Quadrant, where Johnson, Martin, and Floyd Counties come together, at this point the boundary line then follows the Floyd-Martin County Line to the head of Copperas Creek. At that point, instead of following the

county line, the boundary line turns south following the ridge line between Johns Creek and Cow Creek. The initial mine face up is located in Big Sandy RECC's service territory approximately 1000 feet west of the boundary between AEP and Big Sandy's certified territories.

Q: Do you have an understanding concerning the location of the currently permitted reserves to be mined by Matrix?

A: Yes. Most of the permitted reserves to be mined are in AEP's service territory. In fact, I understand from Mr. Horn's testimony and Matrix' responses to Data Requests, that approximately 79.6% (or 8.6 million of the 10.8 million tons) of the permitted reserves to be mined are located in AEP's service territory.

Q: Does Kentucky Power have transmission facilities in the area?

A: Yes. Although Mr. Wagner describes the facilities in more detail, Kentucky Power has both distribution and transmission facilities in the area. The Dewey-Beaver Creek 138 kV transmission line runs generally north-south in the area and traverses the property. In addition, the Dewey-Inez 69 kV transmission line runs east-west north of the Matrix Mine. This line is located approximately 1.6 miles from the mouth of the mine and will be used to serve the mine whether Big Sandy RECC or Kentucky Power eventually is authorized to serve the mine.

Q: Are there any AEP distribution facilities nearby?

A: Yes. Kentucky Power also has distribution facilities south of the Matrix site as well as on the surface of the southern portion of the site. AEP also has 34.5 kV distribution facilities approximately 2.5 miles north of the mine on Airport Road in Martin County that are used to serve the United States Penitentiary-Big Sandy

and the Big Sandy Regional Airport. The 34.5 kV distribution line ends at the access road to the prison, which is approximately 2.5 miles north of the mine entrance. A 19.9 kV single-phase distribution line continues to the airport, coming within approximately 1.5 miles of the mine entrance. In the past, Kentucky Power has provided service to other mining operations near the boundary of the Matrix site. Those operations were served from Kentucky Power's Pevler Station located 4 miles northeast of the Matrix mine. A 12.47 kV delivery point was provided from the Pevler Station, and the mining customers extended the line from that point to their facilities.

Temporary Service to Matrix Mine Opening

Q: Please describe for the Commission your discussions with Beech Fork Mining (Matrix) concerning the current temporary service being provided to Matrix.

A: Kentucky Power Company's Pikeville Office received a letter from Big Sandy RECC on September 26, 2001, granting AEP permission to serve Beech Fork Mining on Sycamore Fork of Daniels Creek. The Pikeville office then called me for details. When I contacted Beech Fork it informed me it was planning to extend its power over into Big Sandy RECC's territory, as Big Sandy RECC did not have adequate power in the Daniels Creek area. The 12.47 kV line Beech Fork extended is served from Czar Coal Corporation's Pevler 69/12.47 kV station that is served by AEP. Beech Fork was projecting a demand of around 1 MW. The only action taken by AEP was to sign the letter from Big Sandy RECC and return it to Big Sandy RECC. In so doing, Kentucky Power acknowledged it was aware Beech Fork was extending facilities that Beech Fork owned and operated

from Kentucky Power's certified territory into Big Sandy RECC's territory with Big Sandy RECC's apparent consent.

Q: The letter from Big Sandy RECC refers to a mine to be located on the Sycamore Fork of Daniels Creek. When did you learn that the line from the Pevler Station had been extended to an opening on the Bear Water Branch of Daniels Creek?

A: When I was informed in June or July of this year that Beech Fork had built a power line to the new Matrix Mine on Daniels Creek, I assumed Big Sandy RECC was aware of this action and the letter AEP had on file was for this extension. It is not unusual for a mining plan to be delayed by a year or two due to permitting issues, roof problems, etc. In reviewing the maps, I see the Matrix mine site is on Bear Water Branch of Daniels Creek instead of Sycamore Fork of Daniels Creek. It is not unusual for a coal company to move a mine opening due to operational problems. It was only after Big Sandy RECC stated in the preliminary hearing on August 28, 2003 that the letter was not for this operation that I learned of Big Sandy's position that it did not consent to the extension of the line to the Matrix mine opening.

Q. After learning of this fact what steps did you take?

A. I immediately requested a 12.47 kV metering set be installed on the customer's line, to determine how much electricity was being used at the Matrix Mine site. I requested Mr. Horn to show me the line and we located a pole that could be used to install the meter. The Company's Paintsville line crew installed the metering on this line on Tuesday, September 2, 2003.

Permanent Service to Matrix

Q. After your initial discussions on September 26, 2001 with a representative of Beech Fork concerning temporary service, did you have any further discussions with representatives of Beech Fork or Matrix concerning permanent service to the mine?

A. Not until October 11, 2002, when Mr. Horn and I discussed a new service for Matrix Energy. Mr. Horn indicated he had applied for service with Big Sandy RECC. He further stated that Big Sandy RECC/East Kentucky Power Cooperative had applied to establish a 69 kV interconnection with AEP and that Big Sandy RECC was planning to give Matrix a 12.47 kV delivery. Mr. Horn expressed his concern about sustaining adequate voltage and the problems of burning equipment up due to low voltage. Mr. Horn at this time also told me a large portion of the reserves to be mined (he indicated approximately 88%) were in Kentucky Power's service territory.

Q: Were there discussions concerning the boreholes at this time?

A: Yes. Mr. Horn indicated that the 3 boreholes, intended to take power into the mine, were in Kentucky Power's territory. He and I discussed that if Matrix were to take power into the bore holes from Kentucky Power, Kentucky Power probably would request Matrix take delivery at 69 kV or 138 kV, but noted that it would probably be more economical to take service at 69 kV delivery due to the cost of 138 kV equipment. Mr. Horn and I discussed the cost of a 138 kV tap. Mr. Horn indicated that it did not make sense to have two service providers serving one mine. He further indicated they were considering petitioning the

Public Service Commission for clarification as to whom they needed to take service from.

Q. Were there any further discussions?

A. I did not hear anything further on this matter until April 2003 when Mr. Horn requested a copy of Kentucky Power's rates.

Q. Did you provide any rate calculations to Matrix?

A. Yes. On April 15, 2003, I calculated the monthly revenue requirement using a 3 MW load with a load factor of 55.7% on the Company's QP rate for 138 kV delivery and 69 kV delivery. Using the then current rates and Fuel Clause Adjustment Factor, a monthly bill, excluding taxes, would be:

69 kV	$41,119.57
138 kV	$39,696.84

Other Service in the Area

Q. Is Kentucky Power presently providing service to mining and other large operations in the immediate area of the Matrix mine?

A. Yes. The Company's distribution facilities serve two large loads near the Matrix mine:

United States Penitentiary-Big Sandy	3.3 MW
Beech Fork Mine #2	2.5 MW

Kentucky Power also serves three mining facilities from the Dewey-Inez 69 kV line:

Czar Coal Corporation, Pevler Mine	9 MW
Martin County Coal Corporation, Massey Mine	10.7MW

Pontiki Coal Company LLC, Inez Switch 10.8 MW

Q. Where is the Beech Fork Mine #2 located in relation to the Matrix mine?

A. Beech Fork Mine #2 is located off Route 3 in Martin County approximately 3.5 miles north from the Matrix mine mouth. In fact, as you pass the turn off on Route 3 for Matrix Mine, Airport Road, it is the next left turn off Route 3. The Beech Fork #2 mine is the first major load served from the Dewey Station, Inez Circuit and is served at 34.5 kV. The service name for this operation is Beech Fork Processing Inc.

Q. How much power has AEP provided this facility over the past five years?

A. AEP has provided 34.5 kV service from the Dewey Station to this mine since August 1999. The mine started out as a one section deep mine around 700 kW per month and grew to its present size of 2500 kW per month. The Company's records indicate the annual consumption is as follows:

Beech Fork Mine # 2

Year	kW On	kW Off	kVAR	kWH
2003*	24,456	23,863	26,830	7,386,750
2002	22,719	22,258	17,919	7,063,000
2001	22,177	22,025	19,281	6,924,750
2000	13,607	--	--	4,221,000
1999*	3,337	--	--	640,500

Note: 2003 * is a partial year - 10 months only
All figures are totalized annual numbers
1999 * service commenced 8/9/99
1999 & 2000 average demand was below 1000 kW - served on LGS tariff

Q. Please explain the column headings.

A. "kW On" refers to the Metered Demand during on peak hours of operation, or between the hours of 7 AM to 9 PM Monday through Friday. "kW Off" refers to the metered demand during off peak hours of operation or between the hours of 9 PM to 7 AM for all week days and for all hours of Saturday and Sunday. "kVar" refers to the reactive power demand and "kWh" refers to the measured kilowatt hours. All columns reflect annual usage, unless there is an * next to the year.

Q: Has Kentucky Power also provided service to a separate facility known as Beech Fork Processing, Inc.?

A. Yes. It was located in Van Lear, Kentucky, which is approximately 4 miles northwest of the Matrix mine mouth. The power for the mine came from AEP's Pevler Station. The line crossed the hill into Van Lear, where the voltage was stepped down from 34.5 kV to 12.47 kV. This was a small mining operation, with a demand under 1000 kW. This mine discontinued operation in 1998.

Beech Fork Processing - Van Lear, KY

Year	kW On	kW Off	kVAR	kWH
1998	8,823	--	--	1,772,400

(Because this account had an average demand of less that 1000 kw it was served on LGS Tariff, KW off and kVAR was not measured.)

Q. Is Czar Coal Company's Pevler mine located nearby?

A. Yes. Czar Coal Corporation's facility, commonly called the Pevler Mine, includes a deep mining complex and a preparation plant. It is located approximately 2.1 miles northeast of the Matrix mine mouth. The Pevler Mine is served from Kentucky Power's 69 kV Dewey-Inez line by means of the Pevler station. The Pevler station is located approximately 3.5 miles from Dewey

Station and 10 miles from the Inez Station. The Pevler Station, to which Kentucky Power provides 69 kV service, was purchased from Kentucky Power in 1995. The station and all distribution lines extending from the station are the property of Czar Coal Corporation, including the temporary service that was extended to the Matrix Mine Site in Johnson County.

Q. How much power has Kentucky Power provided the facility over the past seven years?

A. Kentucky Power has provided power to Czar Coal Corporation since Czar Coal purchased the operation in October 1995. It is my understanding the coal mined at the Matrix Mine will go through the Czar Coal Corporation Preparation Plant located at the Pevler Mine. Historical usage is included in the table below:

Czar Coal Corp - Pevler Mine

Year	kW On	kW Off	kVAR	kWH
2003*	76,188	73,472	37,926	30,718,926
2002	94,276	91,714	35,091	39,256,000
2001	88,361	86,345	34,664	34,790,000
2000	91,618	90,680	40,731	32,724,680
1999	113,236	109,103	56,779	43,645,000
1998	135,895	133,257	56,670	53,683,000
1997	117,428	110,143	71,111	44,660,000

Note: 2003* is a partial year - 10 months only
1995-1996 records unavailable in the Paintsville office

Q. Does this conclude your testimony?

A: Yes it does.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

COMMONWEALTH OF KENTUCKY

CASE NO. 2003-00228

COUNTY OF FRANKLIN

AFFIDAVIT

Delinda K Borden, upon first being duly sworn, hereby makes oath that if the foregoing questions were propounded to her at a hearing before the Public Service Commission of Kentucky, she would give the answers recorded following each of said questions and that said answers are true.

Delinda K Borden

Subscribed and sworn to before me by Delinda K Borden this 31st day of October 2003.

Notary Public

My Commission Expires January 8, 2005

WAGNER

COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF

MATRIX ENERGY, LLC FOR DETERMINATION OF RETAIL ELECTRIC SUPPLIER	))	**CASE NO. 2003-00228**

DIRECT TESTIMONY

OF

ERROL K. WAGNER

November 3, 2003

DIRECT TESTIMONY OF
ERROL K WAGNER, ON BEHALF OF
KENTUCKY POWER COMPANY,
d/b/a AMERICAN ELECTRIC POWER,
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO 2003-00228

Introduction

Q: Please state your name, position and business address.

A: My name is Errol K. Wagner. My position is Director of Regulatory Services, Kentucky Power Company d/b/a American Electric Power ("Kentucky Power, AEP or Company"). My business address is 101 A Enterprise Drive, Frankfort, Kentucky 40602.

Background

Q: Please summarize your educational background and business experience.

A: I received a Bachelor of Science degree with a major in accounting from Elizabethtown College, Elizabethtown, Pennsylvania in December 1973. I am a Certified Public Accountant. I worked for two certified public accounting firms prior to joining the Pennsylvania Public Utility Commission Staff in 1976. In 1982, I joined the American Electric Power Service Corporation ("AEPSC") as a Rate Case Coordinator. In 1986, I transferred from AEPSC to Kentucky as the Assistant Rates, Tariffs and Special Contracts Director. In July 1987, I assumed my current position.

Q: What are your responsibilities as Director of Regulatory Services?

A: I supervise and direct the Regulatory Services of the Company, which has the responsibility for rate and regulatory matters affecting Kentucky Power's jurisdiction. This would include the preparation of and coordination of the Company's exhibits and testimony in rate cases and any other formal filings before state and federal regulatory bodies. Another responsibility is assuring the proper application of the Company's rates in all classifications of business.

Q: To whom do you report?

A: I report to the Vice President of Regulatory Services-East, Mr. J. Stuart Solomon, located in Columbus, Ohio.

Q: Have you previously testified before this Commission?

A: Yes. I have testified before this Commission in numerous regulatory proceedings involving the application of the fuel adjustment clause, the operation of the environmental cost recovery mechanism, approval of certificates of public convenience and necessity and other regulatory matters.

Q: What is the purpose of your testimony in this proceeding?

A: The purpose of my testimony is to give a general description of the Company's distribution and transmission facilities in the Matrix Energy LLC ("Matrix") mining area. I also address the adequacy of the Company's transmission facilities and provide a historical perspective of the Company's transmission facilities in the area of the Matrix mine.

The Company's Distribution and Transmission Facilities in the Area

Q: Would you please give a general description of the Company's distribution facilities in the area of the Matrix mine?

A: Yes. The Company's distribution facilities in the area include a single-phase 7.2 kV distribution line located within the Matrix mining area at the southern end of the Matrix mine. This line extends along Kentucky Route 194 for approximately 3.1 miles to Thomas and then south for approximately another 4.6 miles to where it connects with the end of the 3-phase 12.47 kV line located near the intersection of Kentucky Route 194 and Drift Branch Road (See Exhibit EKW-1). This 12.47 kV line is served from the Johns Creek-Meta 34.5 kV circuit via a 34.5/12.47 kV, 1.5 MVA step-down transformer bank located approximately 4.3 miles away on State Highway 194. The easements for these distribution facilities were obtained in late 1950 and the facilities were placed in service shortly thereafter.

Q: Is it anticipated that this Customer would be served from these distribution facilities?

A: No. The Company anticipates that this customer would be served directly from the Company's transmission facilities by means of a 69 kV tap line.

Q: Would you please give a general description of the Company's transmission facilities in the area of the Matrix mine?

A: The Company's transmission facilities in the general area of the Matrix mine consist of the Dewey-Inez 69 kV network which serves this predominantly rural area, with coal mining being the area's main industry. The principal sources of electric supply to the Dewey-Inez 69 kV network are the Inez 138/69 kV, 50 MVA transformer station and the Dewey 138/69 kV, 90 MVA transformer stations. These stations are connected by a 69 kV line that is approximately 14 miles long. The Dewey and Inez stations are located in Johnson and Martin

Counties, respectively. The majority of the Dewey-Inez 69 kV line lies within Martin County. Both the Dewey and Inez 138/69 kV stations are served from the AEP 138 kV interconnected network. As shown on EKW-1, the Dewey-Inez line runs east-west approximately 1.6 miles north of the Matrix mine area. Without regard to whether the Company or Big Sandy RECC serves the entire Matrix Mine, or whether the mine site is split between the two companies, the Matrix Mine will be served from the Company's Dewey-Inez 69 kV line.

AEP also has the Beaver Creek-Dewey 138 kV line (via Betsy Lane), which is approximately 28.8 miles long, and which traverses the Matrix mine area. Although the Dewey Station on the Beaver Creek-Dewey 138 kV line was placed in service in 1971, the Beaver Creek-Dewey 138 kV line section itself was placed into service in 1967 as part of the Beaver Creek-Big Sandy 138 kV line (See Exhibits EKW-1 and EKW-2).

Q: Would you please summarize your discussion of the Company's transmission and distribution facilities in the area?

A. Certainly. The Company has both distribution and transmission facilities located within the Matrix mine area. The transmission facilities include the Company's Beaver Creek-Dewey 138 kV line, which spans the Matrix mine area north to south and the Dewey-Inez 69 kV line that is located approximately 1.6 miles north of the Matrix mine area. As indicated earlier in my testimony, the Dewey–Inez 69 kV line will be tapped to provide service to the Matrix mine.

Adequacy of the AEP Transmission System

Q: Would you discuss the adequacy of the AEP transmission system?

A: The AEP transmission system is more than adequate to serve this load. It is designed, built, and operated as part of an integrated transmission system. The eastern portion of the AEP transmission network, which includes this area, consists of transmission facilities at voltage levels ranging from 765 kV to 23 kV representing a total of approximately 22,000 circuit miles of line. These lines are in seven states which include Indiana, Kentucky, Michigan, Ohio, Tennessee, Virginia and West Virginia. This portion of the AEP transmission network is interconnected with 25 utilities via approximately 140 interconnections.

Q: Is there adequate capacity on the Dewey-Inez 69 kV line, which you indicate will be used to serve the mine?

A: Yes. The Dewey-Inez 69 kV line provides adequate and dependable service to an existing load of approximately 31 MW. The network has sufficient capacity to serve new load, including the proposed Matrix mining load if served from the Dewey-Inez 69 kV line.

Q: Would you please describe for the Commission how the transmission facilities in the Matrix mining area developed?

A: The current Dewey-Inez 69 kV network configuration evolved over a number of years beginning in 1971 with the establishment of the Massey and Pevler stations. The Dewey-Inez 69 kV line section initially was part of the Dewey-Sprigg 69 kV line, which was first established in 1976 when the area's 46 kV and 34.5 kV facilities were converted to 69 kV operation.

Three 69 kV switching stations, Pevler, Massey and Inez, are served from the Dewey-Inez 69 kV line. The Pevler switching station was established in 1971 as a

69/12.47 kV, 3.75 MVA substation. In 1975, the 3.75 MVA transformer was replaced with a 7.5/8.4 MVA transformer. In 1995, the Pevler 69/12.47 kV substation facilities, with the exception of the three 69 kV switches and metering, were sold to Cumberland Valley Coal Company which was later acquired by Czar Coal Corporation.

The Company's investment to-date at the Dewey Station and the Inez Station is approximately $41 million, with a major investment of approximately $39 million at the Inez station.

The Matrix Mine

Q: Did AEP develop or investigate a plan of service for the Matrix mine?

A: To date, AEP has not been asked to develop or involved with developing any formal Plan of Service to Matrix. However, in 2002, at East Kentucky Power Cooperative's ("EKPC") request, AEP conducted both a System Impact Study (SIS) and Facilities Study, to establish a proposed new 69 kV delivery point in Johnson County Kentucky. EKPC paid the cost of this study.

Q: Did EKPC inform AEP what the purpose of the new delivery point was to be?

A: EKPC indicated that the new delivery point would serve a potential coal mining facility, to be located approximately 1.6 miles south of the Dewey-Inez 69 kV line. The plan developed was to establish a new 69 kV switching station by tapping the Dewey-Inez 69 kV line, approximately 1.8 miles from the Dewey Station. At this switching station, it was proposed that three (3) 69 kV, 1200 Amp motor-operated air break switches (MOABs), 69 kV interconnection metering, station fence, control and communication facilities, etc. were to be installed. The

proposed switching station facilities were to be owned and operated by AEP at EKPC's expense. AEP and EKPC had a mutual understanding that it would take up to six months to install the new facilities after the Interconnection Agreement was secured. AEP had no responsibility for constructing any facilities beyond the 69 kV metering point.

Q: Is the cost listed in the facilities study all that is needed to provide service from AEP to EKPC/Big Sandy RECC to supply the Matrix mining load?

A: No. As indicated in the facilities study report, EKPC will need to take transmission and ancillary services pursuant to the AEP Open Access Transmission Tariff (OATT).

Q: At the time the Study was performed, did AEP or the Company know that the majority of the coal reserves and mining activity at the mine to be served by the tap were located in Kentucky Power's certified territory?

A: No. AEP was only requested to conduct studies and develop a plan to provide a new 69 kV delivery point for a coal mining facility to be located outside AEP's certified territory. AEP was not aware until October 2002 that any of Matrix's coal mining activity was going to be performed within AEP's certified territory.

Q: What is AEP's understanding of the relative amounts of energy to be consumed in the respective certified territories of Big Sandy RECC and AEP?

A: Based upon Mr. Horn's testimony and Matrix' responses to data requests in this proceeding, in the current permitted mining area Matrix plans on removing 10.8 million tons of coal, with 8.6 million tons or 79.6% being removed within AEP's certified territory. Matrix also anticipates using three section miners within AEP's

certified territory versus only one section miner outside of AEP's certified territory. The mining activity will take place January 2004 through January 2012. In the unpermitted mining reserve area, where Matrix has the rights to mine, it is AEP's understanding that an additional 5.8 million tons of coal are planned to be removed, with 3.9 million tons or 67.2% being removed within AEP's certified territory. Again, Matrix also anticipates using three section miners within AEP certified territory versus only one section miner outside of AEP's certified territory. This mining activity is anticipated to take place September 2004 through October 2014 (See Matrix's response to AEP's second data request). Considering Matrix anticipates a total of 16.6 million tons of coal will be removed from this mine, that 12.5 million tons or 75.3% will be removed from AEP's certified territory, and that Matrix plans to use 3 section miners in AEP's certified territory, while employing only one section miner outside of AEP's certified territory, it appears the majority of the energy consumed at this mining activity will be consumed within AEP's certified territory.

Single Electric Consuming Facility

Q: Is the Matrix mine a single new electric-consuming facility located in two adjacent certified territories?

A: Yes. The Company believes the Matrix mine is a single new electric consuming facility that is located in two adjacent certified territories.

Q: What is the basis for this conclusion?

A: Three factors in particular lead to the conclusion that the Matrix mine is a single-electric consuming facility. First, it appears the mine will be operated by a single

company (Matrix.). As a result, there will be only one customer. In this respect it differs from an industrial park or commercial site that might include multiple independently owned and operated customers. Moreover, it appears that Matrix and Czar, on whose behalf Matrix is mining the coal, are commonly owned. Second, Matrix indicated at the informal conference that the facility could not be profitably operated unless the entire tract, both permitted and unpermitted portions, was mined. It thus appears that from an economic standpoint, the entire Matrix mine is a single facility. Finally, even if Big Sandy provides energy to that portion of the mine in Big Sandy RECC's service territory it would be more efficient, in terms of connection costs and land use for the facility to be connected to AEP's transmission system. Given these facts, it is likely that AEP will provide transmission service for the mine even if it supplies no energy.

Q: Will there be duplication of lines and facilities occasioned by service to the Matrix mine?

A: Duplication of some facilities will occur if service is split between Big Sandy RECC and AEP. Duplication could also occur if the Commission determines the Matrix mine is a single electric consuming facility and assigns service for the entire operation to Big Sandy RECC, unless Big Sandy RECC serves the facility through AEP's transmission system and bills Matrix using the metering at the transmission delivery point. If the Commission directs each utility to serve the mining activity in its respective certified territory, duplication of electric lines and facilities would result. The duplication of facilities could be as little as two sets of

meters or as much as duplicative transmission system extensions and service point facilities.

Q: Are there any other factors that the Commission should consider in making its decision?

A: Yes. The Company believes the Commission should consider two additional factors. First the differing notification protocols that would be followed in the event of a service outage. Both the number and nature of the protocols will vary depending on how service is provided. Another item to be considered is the control area the customer will be in for power supply planning purposes. This too will depend on which utility provides service to the Matrix mining activity.

Q: Please further explain the different protocols that would be followed in the event of a service outage.

A: It should be kept in mind that if the Commission determines that Big Sandy RECC is to serve the customer, Matrix will be Big Sandy RECC's retail customer and EKPC will be AEP's transmission service customer. Should the commission determine that AEP should serve the entire Matrix mine, in the event of a service outage the customer would call AEP and AEP would determine if the problem is on the customer's side of the meter or on the utility's side of the meter. If the problem were on the utility's side of the meter then AEP would respond to the service outage. However, should the Commission determine that Big Sandy RECC should serve the entire Matrix mine, and assuming service is delivered through a connection with AEP's transmission system, Big Sandy would evaluate the problem and determine whether it is on the customer's side of the meter or on

the utility's side of the meter. If the problem were on the utility's side of the meter then Big Sandy RECC would call EKPC which would determine whether the problem is with any of its facilities. If the problem were not with any of EKPC's facilities then AEP would be notified. Of course if the problem is on AEP's system, AEP may already be aware of and working to correct it, but Matrix might be "in the dark" longer, as far as knowing what's happening if it must wait for information to flow up and back down such a chain. The delay could be significant.

Q: What is the significance of the control area to this determination?

A: If the Commission decides that AEP is to serve the customer, the customer would be in AEP's control area and AEP would plan to meet the customer's demand and energy requirements. If Big Sandy RECC serves the entire facility, the customer would still be located in the AEP control area unless EKPC installs real-time (every two seconds) metering and data communications from the delivery point to the EKPC and AEP control centers or extends the EKPC transmission system to serve the mine directly. The installation of real-time metering would allow EKPC to dynamically schedule service to Matrix through AEP's facilities, effectively moving the load into EKPC's control area and relieving AEP of any generation responsibility for the Matrix load. In the absence of dynamic scheduling or a direct EKPC connection, the load would be in AEP's control area and responsibility for service would be split.

Q: Please explain how service responsibility would be split if Matrix is a Big Sandy customer, but the load is in the AEP control area.

A: In this case, EKPC would provide energy to AEP pursuant to hourly block schedules, and AEP would serve Matrix, charging EKPC for transmission, scheduling, voltage support, energy imbalance and other ancillary services, pursuant to AEP's FERC-approved Open Access Transmission Tariff.

Q: Please explain what is involved in energy imbalance and other ancillary services.

A: AEP will provide energy imbalance service in any hour that the energy supplied by EKPC for Matrix does not match the Matrix load. AEP will charge or credit EKPC's energy imbalance account each hour depending on whether the energy scheduled to AEP for Matrix by EKPC is less or more than was needed to supply Matrix and associated system energy delivery losses. In addition to energy imbalance service, AEP would provide regulation and operating reserve services for the Matrix load, if it operated as part of AEP's control area. EKPC and Big Sandy RECC would be responsible to plan for and meet the power and energy requirements of Matrix, but AEP would also be responsible in the operational (day-ahead and real-time) environment to meet a portion of the Matrix requirements (i.e., load regulation and operating reserves). The increased costs and complexities of moving the load to the EKPC control area or operating with split responsibilities would be avoided if the Commission finds that AEP should serve the facility as a single entity.

Q: Does this conclude your testimony?

A: Yes it does.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

COMMONWEALTH OF KENTUCKY

CASE NO. 2003-00228

COUNTY OF FRANKLIN

AFFIDAVIT

Errol K. Wagner, upon first being duly sworn, hereby makes oath that if the foregoing questions were propounded to him at a hearing before the Public Service Commission of Kentucky, he would give the answers recorded following each of said questions and that said answers are true.

Errol K. Wagner

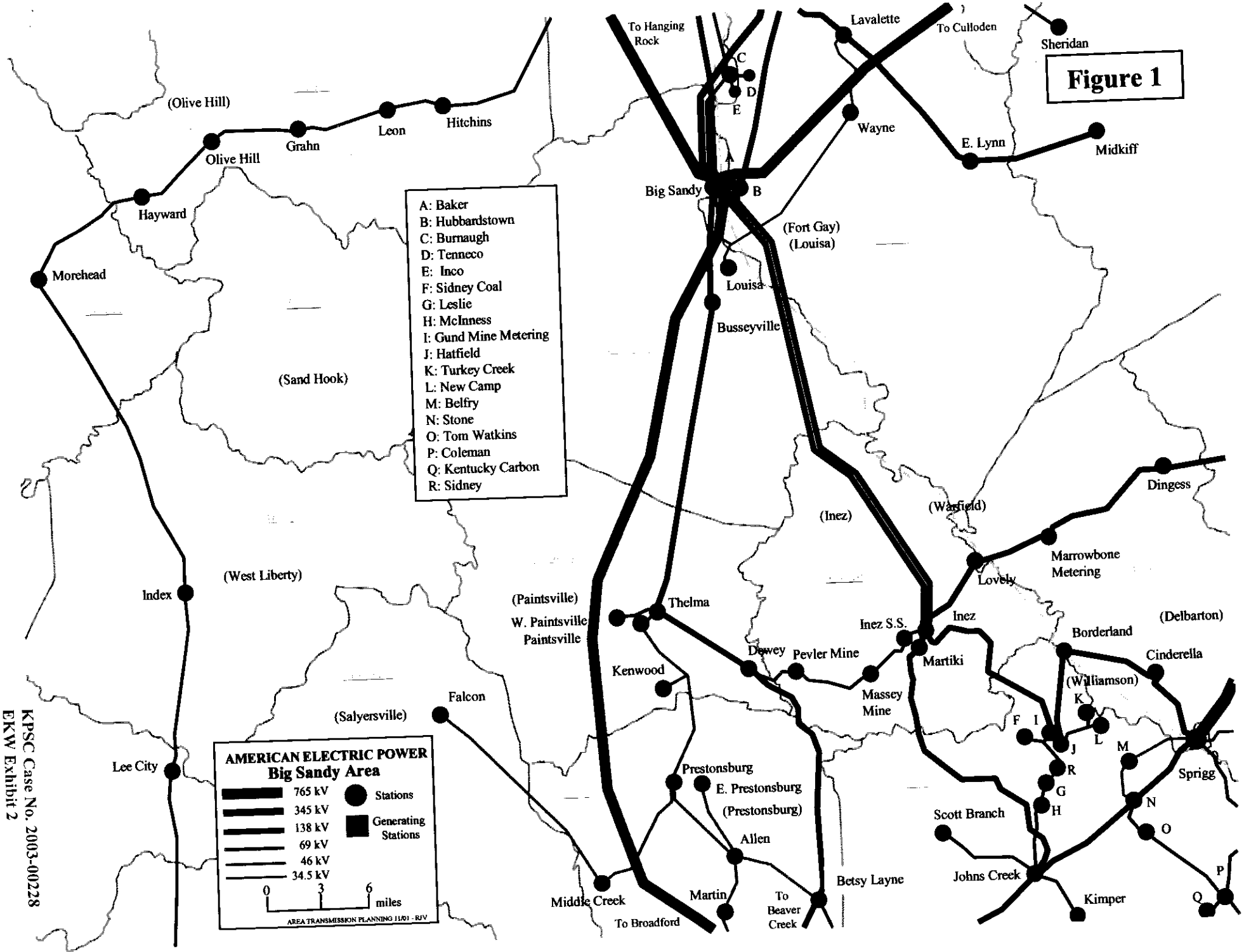
Errol K. Wagner

Subscribed and sworn to before me by Errol K. Wagner this 31st day of October, 2003.

Carolyn S Payne

Notary Public

My Commission Expires Jan. 8, 2005



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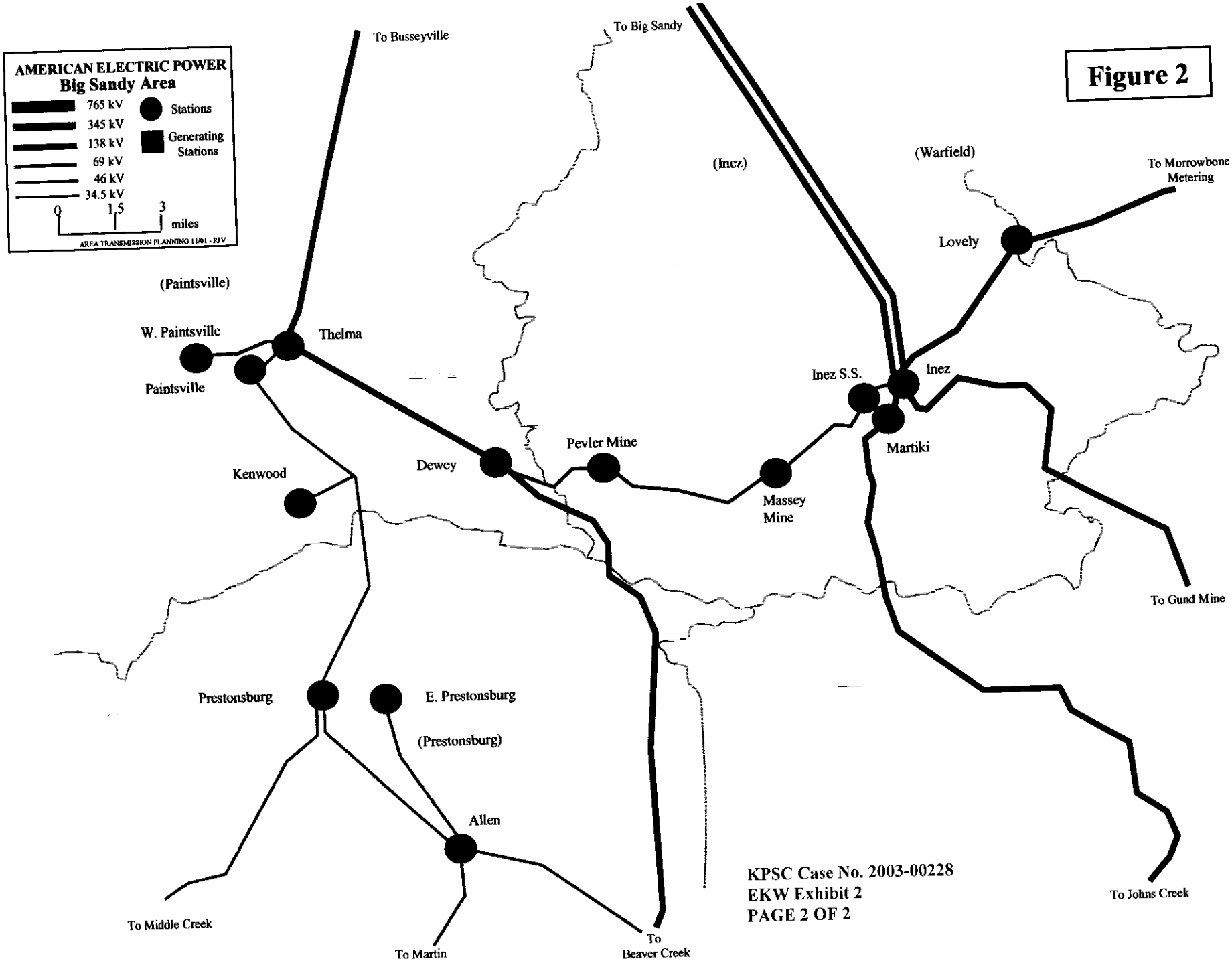
AMERICAN ELECTRIC POWER
Big Sandy Area
765 kV
345 kV
138 kV
69 kV
46 kV
34.5 kV
Stations
Generating Stations
0 1.5 3
miles
AREA TRANSMISSION PLANNING 11/01 - RJV
Figure 2
To Busseyville
To Big Sandy
(Inez)
(Warfield)
To Morrowbone Metering
Lovely
(Paintsville)
W. Paintsville
Thelma
Paintsville
Inez S.S.
Inez
Martiki
Pevler Mine
Dewey
Kenwood
Massey Mine
To Gund Mine
Prestonsburg
E. Prestonsburg
(Prestonsburg)
Allen
To Middle Creek
To Martin
To Beaver Creek
To Johns Creek
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